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DE RUEHTV #0918/01 0850749  
ZNY CCCCC ZZH  
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FM AMEMBASSY TEL AVIV  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0205  
INFO RUEHXX/ARAB ISRAELI COLLECTIVE  
RUEHRL/AMEMBASSY BERLIN 0342  
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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 000918

SIPDIS

C O R R E C T E D C O P Y ((PARA 1 CLASSIFICATION MARKING))

SIPDIS

E.O. 12958: DECL: 03/23/2017  
TAGS: [PREL](#) [PGOV](#) [KPAL](#) [KWBG](#) [PTER](#) [EFIN](#) [IS](#)  
SUBJECT: ISRAEL-PALESTINIANS: EU ENVOY ON PEACE TALKS, NUG  
CONTACT POLICY, ASSISTANCE, AND REFORM (C)

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Classified By: Ambassador Richard H. Jones; Reasons 1.4 (B and D).

¶1. (C) Summary: During a March 22 meeting with NEA A/S Welch, Deputy Legal Adviser Schwartz, and the Ambassador, EU Special Representative for the Middle East Peace Process Marc Otte said he believes Israelis are uneasy with political horizon discussions, nervous about U.S. intentions, and uncertain on how to proceed with the Palestinians. He asked to meet with USG officials in mid-April to further develop ideas from the last Quartet principals' meeting. EU foreign ministers will discuss the Palestinian National Unity Government (NUG) in Bremen on March 30-31. EU contact policy with the NUG allows talks with non-Hamas members, and Otte saw FM Ziad Abu Amr and FinMin Salam Fayyad, in addition to President Mahmud Abbas and his staff. Otte agreed with Fayyad's thinking on a work-sharing arrangement for donors, whereby Arab governments fund immediate needs while the Europeans continue to contribute through the TIM. He was interested in USG views on funding projects that could benefit Abbas and other proponents of peace. Otte found his Palestinian contacts had made little progress on reforming Fatah and wary of a strong western embrace. End Summary.

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GOI skeptical: both sides need new ideas  
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¶2. (C) Noting that he had just come from a meeting on extending the EU-BAM mandate with PMO Foreign Policy Adviser Shalom Tourgeman, MFA Senior DDG Yossi Gal, and MOD PolDir Amos Gilad (septel), Otte described what he sees as GOI uneasiness with the political horizon discussions, nervousness about U.S. intentions, and uncertainty on how to proceed with the Palestinians. The Israelis told him they feel betrayed by Abbas's recent moves, especially the formation of the NUG without the promised release of abducted IDF soldier Gilad Shalit.

¶3. (C) A/S Welch reassured Otte that the USG is seeking Israel's views on how to make progress towards peace. Otte remarked that both the Palestinians and Israelis would benefit from new ideas, such as those discussed at the Quartet principals' meeting in Berlin. Schwartz and Otte mentioned several possible areas for consideration, including water projects and a security regime. Otte requested a meeting with USG officials in mid-April to flesh-out such ideas, a proposal the U.S. side accepted.

¶4. (C) Otte noted that Arab League Secretary General Amre Moussa has asked High Representative Javier Solana to speak

on the peace process at the Riyadh summit, while the GOI has expressed interest in making progress with certain Arab states. A/S Welch commented that we are pursuing common goals and want to leverage both the Secretary's efforts and Chancellor Merkel's prestige to maintain momentum toward a possible Quartet event in the region under the German EU Presidency. He described what the USG has heard from Arab states in the region and urged the EU to reinforce our joint approach with the Gulf states, especially Kuwait.

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EU contact policy with the NUG  
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15. (C) Otte said that the Quartet statement from March 21 had been well received by EU member states, but had prompted an "angry phone call" from Amre Moussa. He described the EU's main dilemma as deciding how to deal with individual members of the NUG. Otte said that no member state had suggested expanding contacts beyond non-Hamas members of the NUG. While in the region, Otte had met with Abbas, FM Ziad Abu Amr, Rashid Abu Shabak, FinMin Salam Fayyad, and senior Fatah officials, but had been unable to coordinate meeting times with National Security Adviser Muhammad Dahlan. Noting that even the Palestinians had been critical of Norway for rushing to embrace the NUG, Otte questioned what contacts with Hamas would achieve. Otte said that the NUG would be a major topic of conversation at the March 30-31 informal meeting of EU foreign ministers (Gymnich) in Bremen.

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Assistance and dealing with Fayyad  
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16. (C) According to Otte, Fayyad said he needs time to reestablish fiscal responsibility in the Finance Ministry. He does not intend to discuss salary payments at the moment and is advocating a brainstorming session with international donors to explain his strategy and get their opinions. He foresees a work-sharing arrangement, whereby Arab donors fund

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his immediate needs while the Europeans continue to contribute through the TIM. He asked the Europeans to speak with him prior to changing their current assistance mechanism. Fayyad told Otte that his top political priority is law and order. Noting that the GOI had told him that NSA Dahlan is "tainted" due to his new position, Otte asked how funding for security programs could continue.

17. (C) Otte supported the work-sharing idea, asking A/S Welch how the international community could better earmark Arab funding for specific infrastructure projects such as Karni, Rafah, and rebuilding security services that report to Abbas. A/S Welch stressed the positive impact that certain projects could have in improving the image of Abbas and those who are serious about peace. Otte agreed, suggesting that education projects that bypass the Hamas-led ministry might help. Otte said the EU is currently "playing it safe" by only funding the TIM and certain border crossing projects.

18. (C) A/S Welch urged EU states to maintain a system that allows for funding non-Hamas projects without undercutting our shared political objectives. The Ambassador noted that even the GOI favored continuation of many infrastructure projects. Welch outlined the ideas that Fayyad had discussed with Jerusalem CG Waller about segregating funding for the Presidency and other non-NUG institutions from the rest of the budget, a process that could eventually lead to resumption of GOI transfers of Palestinian revenue. A/S Welch and Schwartz asked if the EU had considered the value of external auditing for Fayyad's ministry.

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Little progress on Fatah reform  
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19. (C) Describing Fatah's reform efforts as "quite a dismal picture at the moment," Otte complained that the party has no clear strategy focused on building a political machine or winning elections. He found Abbas in a "very good mood." The Palestinian President admitted that the NUG did not meet the Quartet principles, saying this was the reason he had chosen to speak when the Government was formed. He told Otte that he was asking the international community to neither embrace nor boycott the NUG, cautioning that "if you boycott the government you boycott me." At the same time, Abbas said that a strong western embrace would only hurt Fatah reformers. Fayyad echoed this sentiment in a separate meeting.

10. (U) A/S Welch has cleared this cable.

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JONES